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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000980

SIPDIS

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DEPT FOR S/EEE AMB MORNINGSTAR AND DSTEIN
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DEPT FOR S/CT FOR GROBERTSON, DKURSCH, CLARKS
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TAGS: [ENRG](#) [EPET](#) [ECON](#) [PREL](#) [TU](#) [AJ](#)
SUBJECT: AZERBAIJAN: A MODEST PIPELINE PROPOSAL?

REF: A. BAKU 976
[B](#). BAKU 969
[C](#). BAKU 919

Classified By: POL ECON COUNSELOR ROBERT GARVERICK FOR
Reasons 1.4 (B,D, E)

Summary

[1](#). (C) In a lengthy December 15 meeting, SOCAR Vice President Elshad Nassirov laid out a new natural gas pipeline proposal, and provided details of his recent visits to Turkey and Iran. (reftels A and B). Nassirov suggested combining Nabucco and White Stream into one energy transit corridor, a trunk line stretching from Turkmenbashi, Turkmenistan, to Baku, to Poti, Georgia, and via the Black Sea to Varna, Bulgaria, and finally on to Nabucco's terminus, Baumgarten, Austria. Transport across the Black Sea would be achieved via small parallel pipelines, 8 billion cubic meters/annum (bcm) each, although Nassirov mentioned that CNG was also option. Nassirov indicated these thoughts were behind Azerbaijan's intense focus on the November Bulgarian energy agreement (ref C). Effectively, these plans would involve driving a trunk line to Europe without Turkish participation. While Nassirov's suggestion is interesting, key technical details remain fuzzy and costs could be exorbitant. End comment.

Energy Corridor - Turkmenbashi to Varna:
Straight Line is a " Sign from Above"

[1](#)2. (C) A serious and sober oil executive, Nassirov showed uncharacteristic excitement as he took a piece of paper and laid it on a map, showing a straight line from Turkmebashi, to Baku, to Poti, and through to Varna. He exclaimed, "Look at this, it's a sign from above," denoting the straight line from Turkmenbashi to Varna as symbolically significant. Nassirov also noted that both the Nabucco Pipeline and White Stream projects were supported by the EU. (Note: By inference, this project would merely combine key elements of the two projects the EU has already blessed - that is,

transit across the Black Sea (White Stream), and trunk line transit of Azerbaijani gas to the heart of the European market (Nabucco). End note.)

¶3. (C) Nassirov explained that SOCAR and the GOAJ were so interested in the Bulgaria option - and it had received attention from President Aliyev - because of the possibility of re-routing a combined Nabucco/White Stream project via Bulgaria. With this proposal, Bulgaria becomes not only a destination for 1-2 bcm of Azerbaijani gas, but a transit country for Nabucco's full 16 billion bcm or more per annum.

EU Should Take the Lead
on Pipeline Construction

¶4. (C) Nassirov was clear the EU would have to take the lead on any such project: "The EU has to make a decision to construct the pipeline." Clearly vexed with what he perceives as EU passivity and Turkish obstructionism, he asserted, "Either Turkey or the EU needs to act more decisively. We have discussions with the EU everywhere. They need to find an institution to build a pipeline." Left hanging in the air was the question of US support for such action. Energy Officer echoed Ambassador Morningstar's frequent comment that "the US cannot be more European than the Europeans." Nassirov countered that the difference between the EU and the U.S. is that "they (the EU) can't reach a conclusion. It's good they have the U.S. to think of their fate if they are incapable of doing so."

Introducing Cooperation

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among Warring Pipeline Tribes?

¶5. (C) Frustrated with infighting between and among the various pipeline consortia, Nassirov stressed that the multiple consortia should now begin thinking about how to cooperate. As an example, Nassirov offered, "OMV (Austria) and RWE (Germany) are clashing with each other for leadership of the (Nabucco) project. RWE disclosed the TGI tariffs, this was very incorrect. TAP (Trans Adriatic Pipeline) and TGI are preparing retaliation. We are trying to persuade them to cooperate instead."

Mechanics of Proposal:
Multiple Small Pipelines Across Black Sea

¶6. (C) Nassirov explained the proposal would circumvent the technical problems of a pressurizing a large pipeline across the deep Black Sea by running several smaller pipelines in parallel. He discounted the need for compressor infrastructure under the Black Sea, stating, "we can have one powerful compressor station in Georgia to compress the gas, and another to one to reduce pressure on the other end in Bulgaria. There would be several parallel pipelines, small with thick walls, each one about 8bcm.

¶7. (C) Nassirov estimated that the cost for such infrastructure across the Black Sea would run 10-12 billion USD, with another 10.5 billion to build a portion of Nabucco from Varna to Baumgarten. The portion of the pipeline from Baku to Poti would presumably use the existing South Caucasus Pipeline (SCP), with an extension to the Georgian Black Sea coast. Nassirov briefly mentioned the option of moving gas via compressed natural gas (CNG) or liquefied natural gas (LNG) technology, but seemed most enthused about the prospects for multiple small pipelines across the Black Sea.

The Time is Now: Turkmen Gas is Free,
SDII Soon to be Sanctioned

¶8. (C) Nassirov pointed to a unique confluence of events which would favor the construction of such a pipeline:

-- Azerbaijan is poised to sanction SD II;

-- Turkmenistan has free gas now, not having resumed gas supplies to Russia after the 2009 pipeline explosion;

--Turkmenistan is actively exploring options to reduce its dependence on Russia;

--Russia does not need Turkmen gas currently.

¶9. (C) Nassirov clearly sees as a small window of opportunity to move before Russia once again sews up Turkmen gas. Nassirov affirmed that "both we and the Turkmen would provide gas if the EU were to get the pipeline constructed. Turkmenistan will sell gas at its border." He explained that, in an effort to avoid antagonizing Russia, the Turkmen have always made sales at the border their official position. Nassirov also interprets the current lull in sales of Turkmen gas to Russia as fortuitous. After their pipeline explosion, the Turkmen are leery of being bound to sell their gas only to Russia. Likewise, as long as an economic lull persists, Russia may be wary of being committed to buy Turkmen gas.

EU Email in Hand: No Legal Impediment
to Pipeline Construction

¶10. (C) Nassirov showed Energy Officer an email from the European Commission representative Brendan Devlin (DG-TREN

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Policy Officer), forwarded via a BP employee, stating that the EU saw no legal barrier to the construction of such a pipeline under the Black Sea. While Nassirov recognizes that Turkey or Ukraine would likely place legal impediments in the path of such a project, with the EU having taken this position, he believes that they would have no legal grounds, and would be overruled.

Comment

¶11. (C) Embassy Baku is not sure how serious Nassirov, SOCAR, or the GOAJ are about this proposal. Nassirov has clearly gone as far as making official inquiries with the European Commission. Beyond that, one recent point adds credence to the Bulgaria option as a possible long-range strategy: President Aliyev took half of his cabinet, and much of SOCAR's senior management, to Sophia last month for signing of the Bulgarian MOU (reftel C). At the time, we were left scratching our collective head that a small 1-2 bcm sale to Sophia required such an entourage, and generated such an enormous (and likely government-directed) press whirlwind in Baku. Plans to utilize Bulgaria as a transit country for a European trunk line provide a more coherent context for these events, than does a mere 1-2 bcm gas deal.

¶12. (C) While Nassirov's suggestion is interesting, key technical details remain fuzzy - is it really possible to transport gas via the Black Sea with no additional (and cost-prohibitive) under-sea compression? Additionally, one letter from a mid-level functionary at the European Commission does not guarantee Turkish or Ukrainian cooperation on efforts to transport gas via the Black Sea. Finally, the EU doesn't build pipelines, and to date, hasn't seemed adept at helping private companies organize themselves to do so. Beyond the technical problems, what can we conclude?

¶13. (C) In its efforts to develop transit possibilities beyond Turkey, SOCAR management is actively brainstorming and developing new alternatives beyond the myriad pipeline

options already on the table. Given reftel points (ref A) regarding BOTAS' enormous take-or-pay gas obligations, Post concludes that Nassirov may assesses that BOTAS cannot afford to do another large gas deal at this time. Whatever directions Turkey's political leadership may be handing down to BOTAS, the firm may feel its financial hands are tied, unless the Turkish state is willing to step in to assume some financial liability for the contracts. Therefore, Nassirov may assess that Azerbaijan increasingly must think out of the box in developing its Plan B, even if this means driving a trunk line to Europe without Turkish participation. End comment.

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